TUSCARORA TOWNSHIP CHEBOYGAN COUNTY, MICHIGAN

Financial Statements For the Year Ended June 30, 2004

Prepared By:

Richard E. Mahlmeister, C.P.A. 580 South Nicolet, P.O.Box 996 Mackinaw City, MI 49701

Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

ed under P.A. 2 of	e	_		Other	Local Governme	ent Name Township		Chebo	oygan	
City To	wnship		nion Da	te	143041014	Date Accountant Report Submit	ted to State:			
30/04			/13/0		lead unit of a	government and rendered	an opinion on fir	nancial stat	ements prepar	ed i
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e affirm that:									CEIVE T. OF TREASE	์ บิหิโ
We have cor	nplied v	with the B	ulletin	for the A	udits of Local U	Jnits of Government in Mic	chigan as revised.	1 1)	EU 1 5 201	04
We are certif	ed pul	olic accou	ntants	registere	ed to practice in	n Michigan.		1		
e further affirm	the fol	lowing. "Y endations	es" re	sponses	have been disc	closed in the financial state	ements, including	the notes, LOCAL	or in the report AUDIT & FINAN	CÉ
ou must check t	he app	licable bo	x for e	each item	below.					
Yes 🔽 N	o 1.	Certain	compo	nent unit	s/funds/agenci	es of the local unit are exc	luded from the fin	ancial sta	tements.	
Yes V		275 of 1	980).			e or more of this unit's ur				
Yes 🔽 N		amende	d).			nce with the Uniform Acc				
Yes 🔽 N		requirer	nents.	or an ord	der issued unde	ditions of either an order er the Emergency Municip	ai Loan Act.			
Yes 🔽 N	No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).									
Yes 🗸	lo 6					distributing tax revenues t				oori
The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year early Yes No 7. pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfund credits are more than the normal cost requirement, no contributions are due (paid during the year).										
Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 19 (MCL 129.241).										
Yes 🗸	No 9). The lo	al un	t has not	adopted an inv	estment policy as required	d by P.A. 196 of 1	997 (MCL	129.95).	
We have encl	sed ti	ne follow	ing:				Enclosed	To B Forwar		
The letter of c				endations	3.		✓			
						(program audits).			•	<u>, </u>
Single Audit R									•	
Certified Public A	countar	ıt (Firm Nam	e)			-				
Richard E.	Mahlı	neister,	CPA		1	City		State	ZIP 49701	
580 South		Stroot	PΩ	Bay 99	x6 /	Mackinaw	v City	MI	45/01	

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Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

October 13, 2004

Township Board Tuscarora Township Cheboygan County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Tuscarora Township*, *Cheboygan County*, *Michigan*, as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of *Tuscarora Township*, as of June 30, 2004, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 1 through 3 and 28 through 30, are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Richard E. Mahlmeister, C.P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Assets at June 30, 2004 totaled \$3,196,792 for governmental activities. Of the total, \$2,274,659 represent capital assets, net of depreciation.

Revenues derived from governmental activities were \$1,430,525 (\$114,277 from program revenues and \$1,316,248 from general revenues). Overall expenses for the Township's governmental activities were \$1,283,782.

The Township has outstanding debt of \$939,411. The township purchased capital assets in the amount of \$83,607 during the fiscal year. Capital asset and debt activity is addressed further in a subsequent section of this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year June 30, 2004.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Township, you may also consider additional factors such as tax base changes, facility conditions, and personal changes.

Most of the activities of the Township are reported as governmental activities. These would include the operations recorded in the General Fund.

The government-wide financial statements include not only the Township itself (known as the *primary government*), but also the Downtown Development Authority and Library component units, which are legally separate entities for which the Township is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They may also be created by the Township board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

Governmental Funds

Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The Township maintains four individual governmental funds; General Fund, Police Fund, Township Hall Bonds Fund and Highbanks Erosion Control Bonds Fund. All of which we consider major funds. The Township funds are financed primarily by both property tax revenue and state shared revenues.

Fiduciary Funds

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belongs. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

FUND ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets

The Township's governmental activities net assets increased \$146,743 during the year, to total \$2,172,492.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Activities

The General, Police, Township Hall Bonds Fund, Highbanks Erosion Control Bonds Fund and Fiduciary Fund activities remained consistent, and the Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, airport, recreation/park development, tax collection, street lighting, police and fire protection.

Capital Asset and Debt Administration

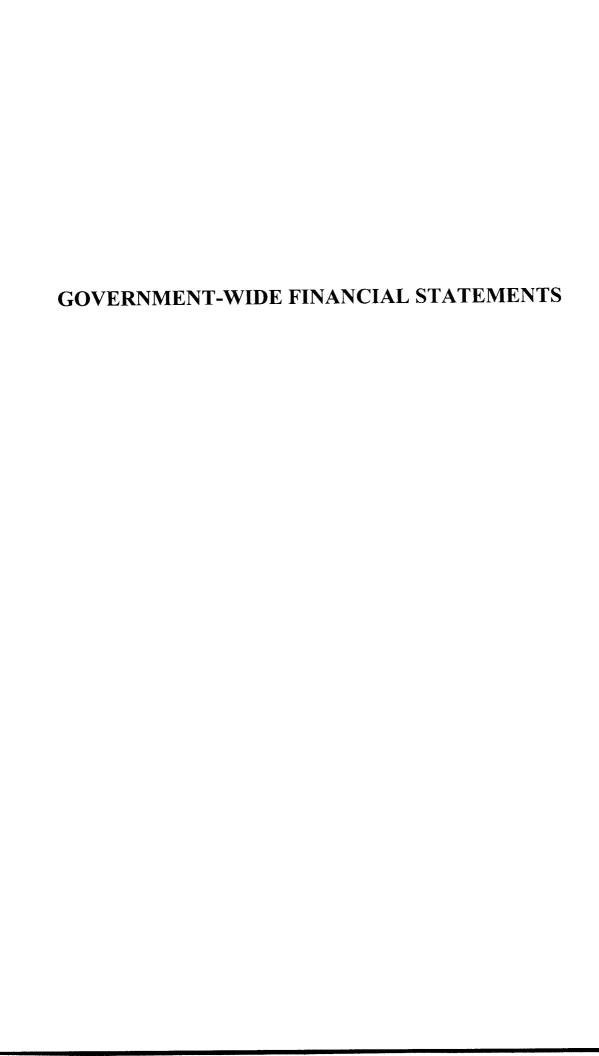
At June 30, 2004, the Township had \$3,359,383 in a broad range of capital assets, including buildings, parks, land for an industrial park, police, office and park equipment.

At June 30, 2004 the Township had total debt outstanding of \$939,411. The Township reduced its debt by \$156,429 by making the required annual payments. Additional information on the Township's long-term debt can be found on pages 25 and 26 of this report.

CONTACTING TOWNSHIP MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Township Clerk at 231.238.0970 (Tuscarora Township Hall).

	BASIS FINANCIAL STATEMENTS
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TUSCARORA TOWNSHIP STATEMENT OF NET ASSETS JUNE 30, 2004

	PRIMARY GOVERNMENT	
ASSETS	GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
Cash and cash equivalents	\$458,484	\$177,431
Investments	267,921	20,000
Accounts receivable	195,728	-
Capital assets	3,359,383	106,751
Accumulated depreciation	(1,084,724)	(95,526)
TOTAL ASSETS	\$3,196,792	\$208,656
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$17,644	\$.
Accrued expenses	67,245	2,532
Long-term liabilities:		
Due within one year	160,507	•
Due in more than one year	778,904	
TOTAL LIABILITIES	1,024,300	2,532
NET ASSETS:		
Invested in capital assets, net of related debt	1,335,248	11,225
Unrestricted	837,244	194,899
TOTAL NET ASSETS	2,172,492	206,124
TOTAL LIABILITIES		

AND NET ASSETS

\$3,196,792

\$208,656

The accompanying notes are an integral part of these financial statements.

TUSCARORA TOWNSHIP STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services		
Primary government				
Governmental activities				
General government	\$288,648	s -	\$8,434	
Public safety	707,718	2,896	15,675	
Public works	36,498	2,070	13,073	
Recreation and culture	177,464	18,440		
Interest on long-term debt	73,454			
Total governmental activities	1,283,782	21,336	24,109	
	Ge	eneral Revenues		
	P	roperty taxes		
	S	tate-shared revenues		
	U	nrestricted interest inco	me	
	O	Other		
	То	tal general revenues		
	Ch	nange in net assets		
	Ne	t assets, beginning of yea	r	
	Ne	t assets, end of year		

Net (Expense) Revenue and Changes in Net Assets

	III I TOU I ROOVED		
	Primary	Component	
	Government	Units	
Capital Grants			
and			
Contributions	TOTAL	TOTAL	
\$ -	(\$280,214)	(\$2,803	
9 -	(689,147)	(4-)	
-	(36,498)		
68,832	(90,192)	(92,000	
-	(73,454)		
68,832	(1,169,505)	(94,803	
	994,525	56,670	
	236,284	9,537	
	25,785	1,752	
	59,654	44,794	
	1,316,248	112,759	
	146,743	17,956	
	2,025,749	188,168	
	\$2,172,492	\$206,124	

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-	FUND FINANCIAL STATEMENTS
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TUSCARORA TOWNSHIP BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2004

ASSETS	GENERAL	POLICE	TOWNSHIP HALL
Cash and cash equivalents	\$155,529	\$205,125	BONDS
Investments	116,147	151,774	\$57,339
Special assessments receivable	45,278	131,774	-
Due from other funds	4,351		-
Due from other governmental units	35,920	6,248	
TOTAL ASSETS	\$357,225	\$363,147	\$57,339
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Accounts payable	\$12,048	\$5,312	\$ -
Accrued salaries payable	-	32,626	
Accrued compensated absences	-	12,153	_
Due to other funds	-	2,211	_
Due to other governmental units	284	-,	_
Deferred revenue	45,278		
TOTAL LIABILITIES	57,610	52,302	-
FUND BALANCES			
Reserved for:			
Debt service	-	_	57,339
Lights	18,775	_	-
Fire protection	6,713	-	_
METRO Act	4,081	_	_
Marina Park	46,694	_	_
Designated for parks	26,485	_	-
Unreserved - undesignated	196,867	310,845	
TOTAL FUND BALANCES	299,615	310,845	57,339
TOTAL LIABILITIES AND FUND EQUITY	\$357,225	\$363,147	\$57,339

TOTAL	HIGHBANKS
GOVERNMENTAL	EROSION
FUNDS	CONTROL BONDS
\$456,34	\$38,351
267,92	-
153,50	108,282
4,35	-
42,10	
\$924,34	\$146,633
\$17,3	\$ -
32,6	-
12,1	-
2,2	-
2	-
153,5	108,282
218,1	108,282
95,6	38,351
18,7	30,331
6,7	_
4,0	_
46,6	_
26,4	_
507,7	_
301,1	
706,1	38,351
\$924,3	\$146,633

TUSCARORA TOWNSHIP **BALANCE SHEET - GOVERNMENTAL FUNDS** JUNE 30, 2004

Reconciliation of fund balances on the balance sheets for governmental activities to the statement of net assets FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$706,150 Amounts reported for governmental activities in the statement of net assets are different because: Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Add: capital assets 3,359,383 (1,084,724)Subtract: accumulated depreciation Special assessment receivables are expected to be collected over several years and are not available to pay current year expenditures. Add: deferred special assessment revenues. 153,560 Certain liabilities, including bonds and notes payable and accrued interest, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds and consist of: Subtract: bonds and notes payable (939,411)Subtract: accrued interest on long-term liabilities (22,466)NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$2,172,492

TUSCARORA TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL	POLICE	TOWNSHIP HALL BONDS
REVENUES			DOMBS
Taxes	\$339,923	\$590,151	\$64,451
State shared revenues and grants	290,675	14,441	•
Donations	8,434	15,675	-
Charges for services	18,440	2,896	-
Interest and rents	14,875	1,864	339
Other	19,901	3,659	<u>-</u>
TOTAL REVENUES	692,248	628,686	64,790
EXPENDITURES			
Current:			
Legislative	70,587	-	-
General government	173,934	-	-
Public safety	110,029	572,265	-
Public works	36,498	-	-
Recreation and culture	77,198	-	_
Other	4,138	-	-
Capital Outlay	59,364	24,243	-
Debt Service:			
Principal	66,429	-	50,000
Interest and fees	26,755		16,205
TOTAL EXPENDITURES	624,932	596,508	66,205
REVENUES OVER (UNDER) EXPENDITURES	67,316	32,178	(1,415)
FUND BALANCES, BEGINNING OF YEAR,	232,299	278,667	58,754
FUND BALANCES, END OF YEAR	\$299,615	\$310,845	\$57,339

HIGHBANKS EROSION CONTROL BONDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$994,525
-	305,116
-	24,109
-	21,336
8,707	25,785
36,094	59,654
44,801	1,430,525
-	70,587
-	173,934
-	682,294
-	36,498
-	77,198
-	4,138
-	83,607
40,000	156,429
8,028	50,988
48,028	1,335,673
(3,227)	94,852
41,578	611,298
\$38,351	\$706,150

TUSCARORA TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$94,852 Amounts reported for governmental activities in the statement of activities are different because: Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities. Add: capital outlay capitalized during the current year 83,607 Subtract: depreciation expense (165,679)Repayment of bond and note principal is an expenditure in the governmental funds, however, it reduces long-term liabilities in the statement of net assets. Add: principal payments on long-term liabilities. 156,429 Some expenses in the statement of activities do not require the use of current finanical resources and therefore are not reported as expenditures in governmental funds. Subtract: accrued interest on bonds and notes. (22,466)

\$146,743

The accompanying notes are an integral part of these financial statements.

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

TUSCARORA TOWNSHIP STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUND JUNE 30, 2004

_	AGENCY FUND TYPE (Property Tax Collection)
ASSETS	
Cash Investments	\$2,140
TOTAL ASSETS	\$2,140
LIABILITIES	
Due to other funds	\$2,140
Employee benefits payable	- · · · · · · · · · · · · · · · · · · ·
TOTAL LIABILITIE	S 2,140
NET ASSETS	
Fiduciary Net Assets	<u> </u>

TUSCARORA TOWNSHIP STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUND YEAR ENDED JUNE 30, 2004

	AGENCY FUND TYPE (Property Tax Collection)
ADDITIONS	
Property tax collections for other governmental units	\$3,723,714
DEDUCTIONS	
Property tax distributions to other governmental units	3,723,714
Change in Net Assets	
Fiduciary Net Assets - Beginning of Year	-
Fiduciary Net Assets - End of Year	

TUSCARORA TOWNSHIP STATEMENT OF NET ASSETS COMPONENT UNITS JUNE 30, 2004

ASSETS	DOWNTOWN DEVELOPMENT AUTHORITY	LIBRARY	TOTAL COMPONENT UNITS
1 delication (m) (#			
Cash and cash equivalents	\$72,292	\$105,139	\$177,431
Investments		20,000	20,000
Capital assets	-	106,751	106,751
Accumulated depreciation		(95,526)	(95,526
TOTAL ASSETS	\$72,292	\$136,364	\$208,656
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accrued expenses	\$	\$2,532	\$2,532
NET ASSETS:			
Invested in capital assets, net of related debt	-	11,225	11,225
Unrestricted	72,292	122,607	194,899
TOTAL NET ASSETS	72,292	133,832	206,124
TOTAL LIABILITIES			

TUSCARORA TOWNSHIP STATEMENT OF ACTIVITIES COMPONENT UNITS FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	
Downtown Development Authority General government	\$2,803		s
Library Recreation and culture	\$103,999	\$2,755	\$9,244
	P Si U	neral Revenues roperty taxes tate-shared revenues nrestricted interest incon ther	ne
	To	tal general revenues	
Total governmental activities	Ch	ange in net assets	
	Net	assets, beginning of year	
	Net	assets, end of year	

Net (Expense) Revenue and Changes in Net Assets

Capital Grants and Contributions	Downtown Development Authority	Library	TOTAL
<u>s</u> -	(\$2,803)	s -	(\$2,803)
<u>\$</u> -	s -	(\$92,000)	(\$92,000)
	28,958	27,718	56,676
	-	9,537	9,537
	403	1,349	1,752
		44,794	44,794
-	29,361	83,398	112,759
	26,558	(8,602)	17,956
	45,734	142,434	188,168
_	\$72,292	\$133,832	\$206,124

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Tuscarora Township, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Library and Downtown Development Authority are presented as component units.

DISCRETELY PRESENTED COMPONENT UNITS

Library - The Township Library, which was established pursuant to the provisions of Public Act 164 of 1877, as amended, is governed by a six person Board of Directors elected through primary and general elections. The Library may issue debt subject to the limitations set forth in the Act and is funded by an annual property tax levy and state penal fines.

Downtown Development Authority - The Downtown Development Authority, which was established pursuant to the provisions of Act 197 of 1975, as amended, is governed by the Township Supervisor and an eight-member board. The Authority may issue debt subject to the limitations set forth in the Act and is funded by a specified annual property tax capture of a portion of the Township and County levies which may only be used for activities within the downtown district.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support (the township does not have any business-type activities). Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

(Continued)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use. Or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures. The township considers all funds to be major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS

Governmental Funds

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Police Fund - This fund accounts for revenues and expenditures directly attributable to police operations. Revenue is primarily obtained from property taxes for this purpose.

Township Hall Bonds Fund - This fund is used to account for the property taxes collected and the payments on bonds issued for the 1993 original construction of Township Hall.

Highbanks Erosion Control Bonds Fund – This fund accounts for the special assessment revenues and payments on the bonds issued for the 1997 Highbanks Erosion Control Project.

Fiduciary Funds

Agency Funds – These funds account for assets held for other governments and employees in an agency capacity. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer and bank money market funds, which invest, solely in short-term fixed income securities of the U.S. Treasury and U.S. Agencies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES AND PAYABLES

Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are reported at their gross values.

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are defined by the government as assets with an initial individual cost of \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements10 - 40 yearsLand improvements15 yearsEquipment and vehicles5 - 10 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

Reserved fund balances for governmental funds indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

BUDGETS AND BUDGETARY ACCOUNTING

The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on July 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Township Board.

The Township Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order of the applicable appropriations, is not employed by the Township because it is, at present, considered <u>not</u> necessary to assure effective budgetary control or to facilitate effective cash planning and control.

PROPERTY TAX REVENUE RECOGNITION

Property tax revenues for the year ended June 30, 2004 reflected in the accompanying financial statements include property taxes levied December 1, 2003. These taxes are due by February 15, 2004, and are added to the County tax rolls after February 28, 2004. The Township receives 100% payment for the delinquent tax by June, 2004. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units taxes and remittance of them to the units are accounted for in the Trust and Agency Fund.

The taxable value of the Township totaled \$157,998,580, on which ad valorem taxes consisted of .9294 mills for the Township's operating purposes, .1709 mills for lights, .6939 mills for fire protection, 3.8546 mills for police protection, .4191 mills for debt retirement and .1757 mills for the component unit library operations, raising \$143,022 for operating, \$26,149 for street lighting, \$106,228 for fire protection, \$609,025 for police protection, \$64,451 for debt retirement, \$27,718 for the component unit library operations and \$28,958 for the component unit Downtown Development Authority.

VACATION AND SICK LEAVE

Accrued vacation pay to police employees of \$12,153 has been accounted for in the Police Fund as a current liability under Accrued Compensated Absences as it is not to be accumulated.

PENSION

The provision for pension cost is recorded on an accrual basis, and the Township's policy is to fund pension costs as they accrue.

DEFERRED REVENUE

Deferred revenue recorded in general and debt service funds consists of special assessments on taxpayers for various road and erosion control projects, and represents amounts to be collected in the future.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Primary Government

The captions on the combined balance sheet relating to cash, cash equivalents and investments and the amounts in the Total (Memorandum Only) primary government column is as follows:

Cash and cash equivalents	\$458,484
Investments	267,921
	\$726,405

At year-end the carrying amount of the Township's primary government deposits were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC) Uninsured – uncollateralized	\$239,885 486,520	\$257,416 486,521
	\$726,405	\$743,937

Investments of the primary government consist of U.S. government mutual funds with a carrying amount and market value of \$227,000 and are uninsured.

Component Units

The captions on the balance sheet relating to cash, cash equivalents and investments and the amounts in the Component Unit column is as follows:

Cash and cash equivalents	\$177,431
Investments	20,000
	\$197,431

(Continued)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

At year-end the carrying amount of the deposits in the Component Unit column were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC) Uninsured – uncollateralized	\$100,000 97,431	\$102,822 77,013
	\$197,431	\$179,835

The GASB Statement No. 3 risk disclosures are as follows:

- 1. Insured or Registered, or Securities held by the Township or the Township's agent in the Township's name.
- 2. Uninsured and Unregistered, with Securities held by the Counterparty's Trust Department or its agent in the Township's name.
- 3. Uninsured and Unregistered, with Securities held by the Counterparty or the Counterparty's Trust Department or Agent, but not in the Township's name.

The Township's deposits and investments are in accordance with statutory authority.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3: RECEIVABLES

The composition of governmental activities receivables is as follows as of June 30, 2004:

Special assessments	\$153,560
Due from other governmental units	42,168
Total receivables	\$195,728

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue reported in the governmental funds was \$153,560.

NOTE 4: CAPITAL ASSETS

Capital asset activity of the primary government governmental activities for the current year was as follows:

	Balance			Balance
	July 1, 2003	Additions	Deletions	June 30, 2004
Not being depreciated:				
Land	\$259,000	\$ -	\$ -	\$259,000
Being Depreciated:				
Land improvements	1,376,327	50,926	-	1,427,253
Parks				
Buildings	1,237,527	-	-	1,237,527
Equipment	262,999	32,681	-	295,680
Vehicles	139,923	-	-	139,923
Subtotal	3,275,776	83,607	-	3,359,383
Less accumulated depreciation	(919,045	(165,679)	_	(1,084,724)
Total	\$2,356,731	\$(82,072)	\$ -	\$2,274,659

Depreciation was charges to the Township's functions as follows:

General government	\$39,989
Public safety	25,424
Recreation and culture	100,266
	\$165,679

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4: CAPITAL ASSETS (CONTINUED)

Capital asset activity of the component unit (Library) governmental activities for the current year was as follows:

	Balance			Balance
	July 1, 2003	Additions	Deletions	June 30, 2004
Being depreciated:				
Equipment	\$106,751	\$ -	\$ -	\$106,751
Subtotal	106,751	-	-	106,751
Less accumulated				
depreciation	(88,182	(7,344)		(95,526)
Total	\$18,569	\$(7,344)		\$11,225

Depreciation was charges to the Township's functions as follows:

Recreation and culture

\$7,344

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Interfund Payable		
Primary government:				
General fund	\$4,351	\$ -		
Police fund	<u>-</u>	2,211		
Fiduciary fund		2,140		
Total	\$4,351	\$4,351		

NOTE 6: PENSION PLANS

Plan description. The Township participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers the police department employees of the Township. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at Municipal Employees Retirement System, 1134 Municipal Way, Lansing, MI 48917.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6: PENSION PLANS (CONTINUED)

Funding Policy. The obligation to contribute to and maintain the system for these employees was established by the Township Board. There are no contribution requirements for the employees of the Township. The Township is required to contribute at an actuarially determined rate; the current rate is 9.99% of annual covered payroll. The contribution requirements of plan members and the Township are established and may be amended by the MERS board.

Annual Pension Cost. For the year ended December 31, 2003 the Township's annual pension cost of \$36,575 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 8.0% investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 4.5% percent per year cost of living adjustments. Both using techniques that smooth the effects of short term volatility over a four year period. The positive unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis over 30 years and the negative unfunded actuarial liability is being amortized over 10 years.

Three year trend information.

Fisca.	year	<u>ended</u>	Decem	ber	3	1	:
						_	_

Annual pension cost (APC)	\$ 2001 \$ 29,832	\$ 31,295	2003 \$ 36,575
Percentage of APC contributed Net pension obligation	100% \$ 0	100% \$ 0	\$ 100%
Actuarial value of assets	\$ 242,430	\$290,559	\$359,829
Actuarial Accrued Liability (AAL)	\$323,584	\$363,902	\$389,143
Unfunded AAL	\$ 81,154	\$ 73,343	\$ 29,314
Funded ration	75%	80%	80%
Covered payroll	\$287,786	\$302,368	\$319,341
UAAL as a percentage of covered payroll	28%	24%	9%

The Township also provides pension benefits to some of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes 7.5% of employees' gross earnings and the employees are not required to make any contribution. In accordance with these requirements, the Township contributed \$4,209 during the current year. Fees and contract charges were \$95.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7: DEFERRED COMPENSATION PLAN

The Township offers participation to certain employees in a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which is administered by Prudential Financial. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in Tuscarora Township's financial statements.

NOTE 8: DEBT

A summary of general long-term debt at June 30, 2004, and transactions related thereto for the year then ended is as follows:

\$700,000 1993 general obligation	Balance July 1, 2003	Additions	(Reductions)	Balance June 30, 2004	Due Within One Year
unlimited tax bonds for construction of community building, payable in annual installments of \$30,000 to \$65,000, bearing interest semi-annually from 2.9% to 5.2%, through October, 2008.	\$350,000	\$ -	(\$50,000)	\$300,000	\$55,000
\$390,000 1997 general obligation limited tax special assessment bonds for Highbanks Erosion Control Project, payable in annual installments from \$25,000 to \$45,000, bearing interest semi-annually from 4.05% to 4.95%, through April, 2007.	165,000				455,000
\$75,000 1996 note for Sturgeon River Bridge Project, payable in monthly installments of \$722 including interest	165,000	-	(40,000)	125,000	40,000
at 4.36% through December, 2006. \$259,000 1998 land purchase note	30,029	-	(8,118)	21,911	8,480
due in monthly installments of \$2,663 including interest at 4.33% through December, 2008.	156,151	-	(25,702)	130,449	26,837
\$417,763 1999 Promissory Note for contracted services due in annual installments of \$37,055 including interest at 5% through July 1, 2017	366,796		(19.715)	240.001	
\$18,003 2002 Equipment Note due in monthly installments of \$552 including interest at6.49% through August, 2004.	6,908	-	(6,908)	348,081	19,651
\$40,000 2002 Equipment Note due in annual installments of \$11,187 including interest at 4.64% through March, 2006.				-	-
	20,956		(6,986)	13,970	10,539
=	\$1,095,840	<u> </u>	(\$156,429)	\$939,411	\$160,507

(Continued)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 8: DEBT (CONTINUED)

The annual principal and interest requirements for the years ending June 30, 2004 and thereafter, including \$201,275 in interest, are as follows:

Year Ended	
June 30,	
2005	\$204.304
2006	192,101
2007	189,068
2008	139,050
2009	119,722
2010 - 2014	185,275
2015 – 2019	111,166
Total	\$1,140,686

NOTE 9: RESERVES AND DESIGNATIONS

Township Hall Bonds – Township Hall Bonds Fund has \$57,339 reserved for payment of long-term debt principal, interest and related costs.

Highbanks Erosion Control – Highbanks Erosion Control Fund has \$38,351 reserved for payment of long-term debt principal, interest and related costs.

Lights - The General Fund has \$18,775 reserved from a special millage for street lighting within the Township.

Fire Protection - The General Fund has \$6,713 reserved from a special millage for fire protection within the Township.

METRO Act - The General Fund has \$4,081 reserved from the State of Michigan to be used for road right-of-way maintenance within the Township.

Marina Park - The General Fund has \$46,694 reserved for development of the so-called Marina Park within the Township.

Designation for Parks - The General Fund has \$26,485 designated for park operations.

NOTE 10: CONTINGENCIES

In the normal course of operations the Township receives grant funds from state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 11: RISK MANAGEMENT

The Township participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan.

The plan has a maximum liability for general liability, wrongful acts, law enforcement, and other comprehensive liability of \$7,000,000, property of \$2,002,261, wrongful acts of \$6,000,000, law enforcement of \$6,000,000, automobile of \$5,000,000, crime of \$10,000, inland marine liability of \$99,200 and bonding for public officials errors and omissions. Additionally, the Township has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

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	SUPPLEMENTARY INFORMATION
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TUSCARORA TOWNSHIP GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				(NEGATIVE)
Taxes:				
Current tax collections	\$174,020	\$174,020	\$143,022	(\$30,998)
Special assessment - lights	27,000	27,000	26,149	(851)
Special assessment - fire protection	109,634	109,634	106,228	(3,406)
Swampland taxes	4,200	4,200	4,107	(93)
Property taxes - administrative fee	48,000	48,000	60,417	12,417
Total taxes	362,854	362,854	339,923	(22,931)
State shared revenues and grants:				
State grant	73,000	73,000	68,832	(4,168)
State shared revenues	241,960	241,960	218,665	(23,295)
State revenues - METRO Act	-	<u> </u>	3,178	3,178
State shared revenues and grants	314,960	314,960	290,675	(24,285)
Donations	11,400	11,400	8,434	(2,966)
Charges for services:				
Cemetery lots and vault use	19,060	19,060	18,440	(620)
Interest and rentals:				
Interest	5,000	5,000	14,452	9,452
Other rentals	2,000	2,000	423	(1,577)
Total interest and rentals	7,000	7,000	14,875	7,875
Other revenue:				
Road special assessments	-	-	16,223	16,223
Other	2,100	2,100	3,678	1,578
Total other revenue	2,100	2,100	19,901	17,801
TOTAL REVENUES	717,374	717,374	692,248	(25,126)

TUSCARORA TOWNSHIP GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2004

BUDGET POSITIVE NEGATIVE)
\$7,025
26
36
2,375
650 1,916
•
416
200
29
7,462 1,522
14,606
1,077
1,077
25,140
1,962
<u>-</u>
27,102
2,306
4,335
42,694 4,842
47,536
2,347
708
3,055
107,042
81,916
01,710
\$81,916

TUSCARORA TOWNSHIP POLICE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES			ACTORE	(NEGATIVE)
Taxes	\$609,025	\$609,025	\$590,151	(\$18,874)
State shared revenues and grants	1,000	1,000	14,441	13,441
Donations	1,000	1,000	15,675	14,675
Charges for services	1,500	1,500	2,896	1,396
Interest and rents	3,000	3,000	1,864	(1,136)
Other	11,000	11,000	3,659	(7,341)
TOTAL REVENUES	626,525	626,525	628,686	2,161
EXPENDITURES				
Current:				
Public safety	604,185	605,335	572,265	33,070
Capital Outlay	22,000	30,850	24,243	6,607
TOTAL EXPENDITURES	626,185	636,185	596,508	39,677
REVENUES OVER (UNDER) EXPENDITURES	340	(9,660)	32,178	41,838
FUND BALANCES, BEGINNING OF YEAR,	278,667	278,667	278,667	· · · ·
FUND BALANCES, END OF YEAR	\$279,007	\$269,007	\$310,845	\$41,838



Member: American Institute of Certified Public Accountants

Michigan Association of Certified Public Accountants

October 13, 2004

Township Board Tuscarora Township Cheboygan County, Michigan

In planning and performing my audit of the financial statements of *Tuscarora Township*, *Cheboygan County*, *Michigan*, for the year ended June 30, 2004, I considered the Township's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated October 13, 2004 on the financial statements of *Tuscarora Township*.

Thank you for the opportunity to serve *Tuscarora Township*. I appreciate the assistance I received from both the Clerk and Treasurer during my audit. Best wishes in the next year.

Richard E. Mahlmeister, C.P.A.

Tuscarora Township Comments & Suggestions October 13, 2004 Page 2

REPORTABLE CONDITION

Reportable conditions involve matters coming to my intention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition that exists is that there is a lack of segregation of duties in both the receipting and disbursement function of the Township. This condition is generally inherent in organizations the size of Tuscarora Township, where corrective action is not practical, and is not necessarily considered to be a material weakness.